Florida Employees Leery of Newer Pension Plan

KRTTA00020040420e04j0002t
By Bill Cotterell, Tallahassee Democrat, Fla.
Knight Ridder/Tribune Business News
602 Words
19 April 2004
Tallahassee Democrat (KRTBN)
English

Apr. 19--The idea of betting their pensions on the vicissitudes of the market still seems troubling for members of the Florida Retirement System.

It's been almost two years since the Division of Retirement started offering tutorials on how to make choices and giving employees the chance to switch from the stodgy safety of the traditional "defined-benefits" plan to the risk and rewards of a "defined-contributions" system.

The State Board of Administration staff recently gave Gov. Jeb Bush and Cabinet members a "snapshot" of how the new plan is going. If it were a TV series, it would get canceled; if it were a baseball team, it would be the Devil Rays, not the Marlins.

National trends are not encouraging, but more about that in a moment.

The defined-benefits plan assures members a pension based on years of service, multiplied by a percentage of average income for peak earning years. It's not much, but it's safe.

Those who opt into defined contributions can invest their state-paid retirement money in a wide range of pension options, including stocks and "bundled products" offered by some big names such as Prudential, Fidelity, Nationwide, VALIC and ING Aetna.

Through the end of February, only 4 percent of employees in the Florida Retirement System had chosen the investment plan. Not only did 96 percent stay in the defined-benefits plan, seven out of 10 didn't even make a choice -- but simply "defaulted" to stay put by ignoring the whole thing.

But among new hires, the investment plan was three times as popular as it was with the FRS membership at large. The investment plan drew 12 percent of new hires, probably reflecting their relative youth (in your 20s, you're not worrying yet) and their desire for portability, since they don't expect to stay in state government.

The state expected 25- to 30-percent enrollment in the investment plan when the Legislature adopted it.

"Momentum for defined-contribution plans, which peaked nationwide with the red-hot stock market of the late 1990s, has slowed significantly in the wake of the market downturn," said an article in last month's Governing magazine, a highly respected publication of Congressional Quarterly. "Since then, no states have adopted new plans, and participation in optional plans is far below projected levels."

Author Anya Sostek reported that Nebraska -- which pioneered the defined-contribution system in the 1960s -- has ended it for new hires and given all other workers an option to switch into a "hybrid" combination of defined benefits and defined contribution.

Governing said West Virginia teachers have asked to switch back to defined benefits, while enrollment in defined-contribution plans has been only 2.5 percent for longtime employees in Ohio and 6 percent in Michigan.

Nebraska found that employees in the optional plan averaged a 6-percent return on their investments from 1983 to 1999, while the state's professionally managed pension-benefits plan posted an 11-percent return. David Haney, director of the West Virginia Education Association, told Governing that employees are nervous about directing their own investments.

"It's like sitting in a car and you've never seen a steering wheel before, and they say to drive this thing," he said.

To see more of the Tallahassee Democrat -- including its homes, jobs, cars and other classified listings -- or to subscribe to the newspaper, go to http://www.Tallahassee.com